2011 Annual Report

Pursuit of reality and innovation
Search of joint development

SinoCom

SinoCom Software Group Limited
中訊軟件集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 0299

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr Wang Zhiqiang
Mr Wang Xubing
Dr Shi Chongming
Mr Siu Kwok Leung

Non-executive Director

Mr Wang Nengguang
Mr Pang Chor Fu

Independent Non-executive Directors

Professor Liang Neng
Mr Lee Kit Wah

COMPANY SECRETARY

Mr Siu Kwok Leung *FCCA, AHKICPA*

QUALIFIED ACCOUNTANT

Mr Siu Kwok Leung *FCCA, AHKICPA*

AUTHORISED REPRESENTATIVES

Mr Wang Zhiqiang
Mr Siu Kwok Leung

AUDIT COMMITTEE

Mr Pang Chor Fu
Professor Liang Neng
Mr Lee Kit Wah

SALARY REVIEW COMMITTEE

Mr Wang Zhiqiang
Mr Wang Nengguang
Mr Pang Chor Fu
Professor Liang Neng
Mr Lee Kit Wah

REGISTERED OFFICE

Cricket Square Hutchins Drive P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9th Floor, Tengda Building
No. 168 Xizhimenwai Street
Haidian District
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1601, 16/F Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

WEBSITE

www.sinocom.cn

PRINCIPAL BANKER

Bank of China
No. 5 Fuchengmenwai Street
Xicheng District
Beijing
China

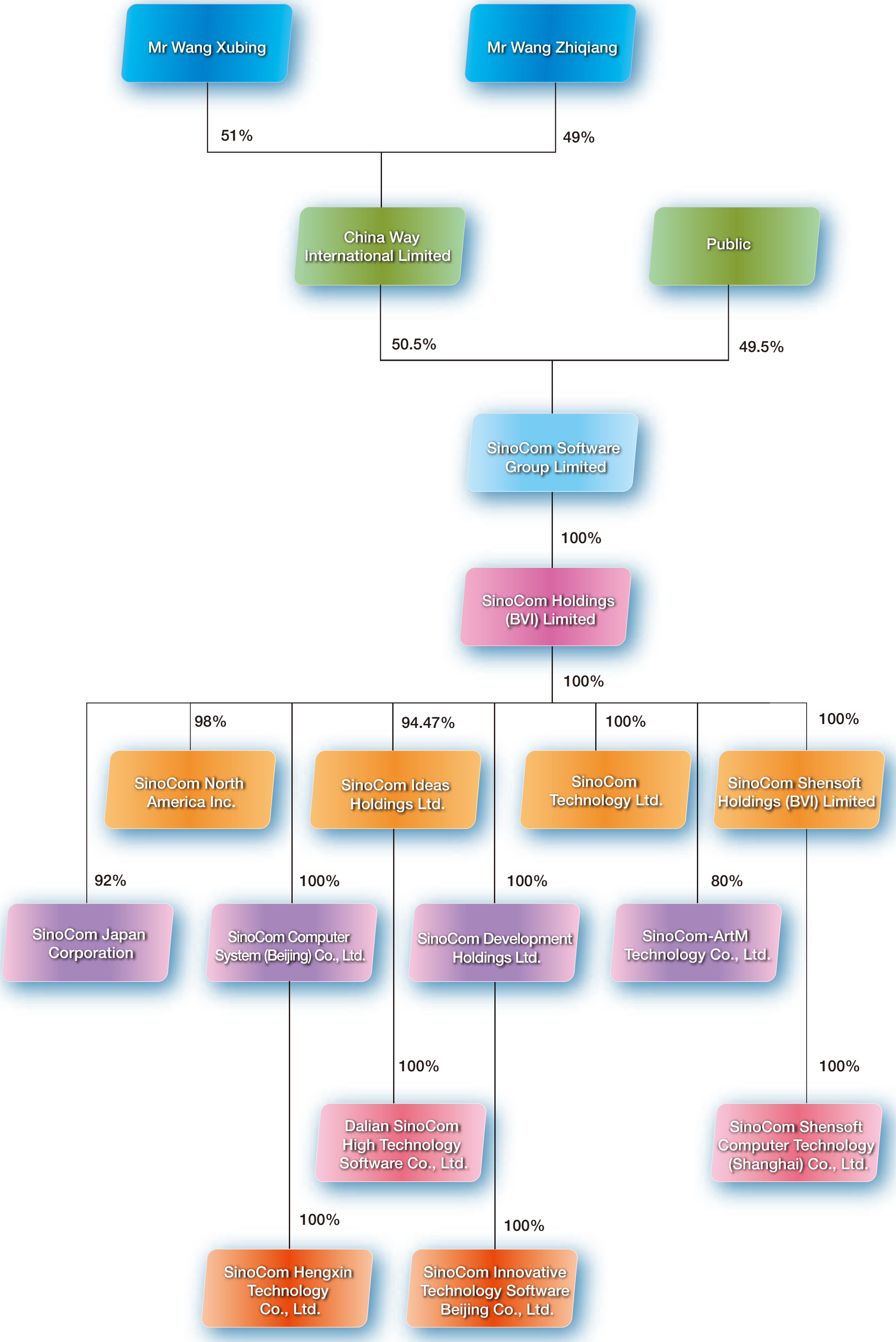
PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Corporate Structure



Note: Interests in jointly controlled entities have not been presented under corporate structure.

Financial Summary

RESULTS

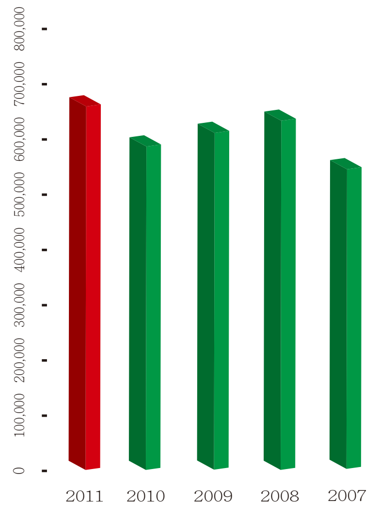
	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**684,942**	609,432	634,470	657,831	564,507
PROFIT BEFORE TAXATION	**223,562**	92,847	133,447	166,891	138,491
TAXATION	**(36,925)**	(23,101)	(30,109)	(35,671)	(20,839)
PROFIT FOR THE YEAR	**186,637**	69,746	103,338	131,220	117,652
PROFIT ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**186,358**	69,010	103,354	130,585	115,474
NON-CONTROLLING INTERESTS	**279**	736	(16)	635	2,178
	186,637	69,746	103,338	131,220	117,652
EARNINGS PER SHARE					
Basic (cents)	**16.73**	6.18	9.28	11.73	10.48
Diluted (cents)	**16.72**	6.17	9.26	11.66	10.30

ASSETS AND LIABILITIES

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**902,745**	752,691	746,392	721,040	587,727
TOTAL LIABILITIES	**(146,362)**	(126,823)	(145,327)	(117,813)	(81,991)
	756,383	625,868	601,065	603,227	505,736
EQUITY ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	**752,729**	621,530	597,213	599,975	500,510
NON-CONTROLLING INTERESTS	**3,654**	4,338	3,852	3,252	5,226
	756,383	625,868	601,065	603,227	505,736

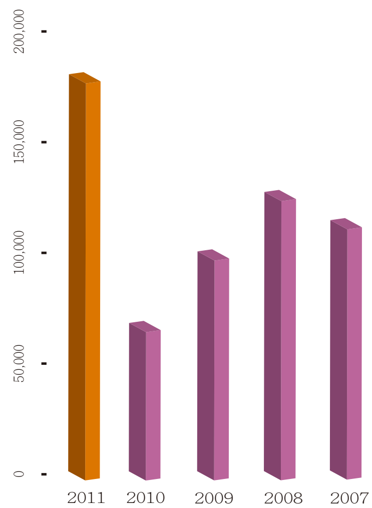
TURNOVER

(HK$'000)



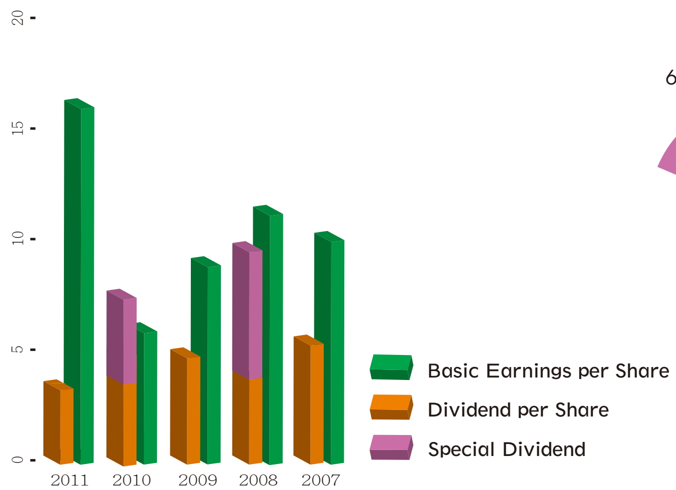
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK$'000)

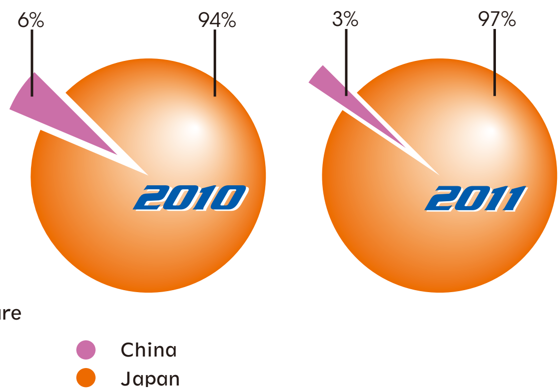


BASIC EARNINGS PER SHARE & DIVIDEND PER SHARE

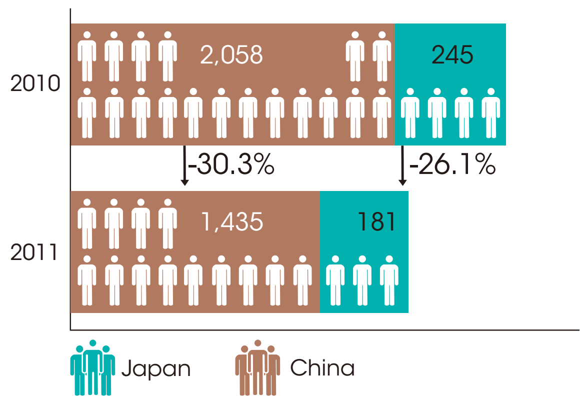
(HK cents)



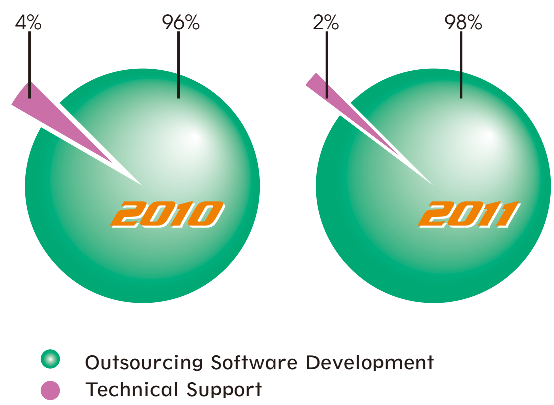
REVENUES BY COUNTRY



HEADCOUNTS



SCOPE OF SERVICES



Chairman's Statement

BUSINESS REVIEW

In 2011, the worldwide financial chaos still remained, debt crisis in Europe troubled the global financial markets, the sign of economic recovery in United States of America was weak, the Mainland China faced high inflation, and the risk of downward shift in economy was on the rise. Amid such economic climate, the business environment will inevitably be impacted to a certain extent. Fortunately, the Group's dedicated outsourcing software development business was not affected significantly. In the past year, the annual turnover still enjoyed a moderate growth of 12%.

In order to deepen mutual partnership relationship, the Group set up a jointly controlled entity with a major customer. Such strategic development not only helps to enhance the Group's business to maintain a steady growth, but also introduces advanced management systems and techniques from the counter party, so as to raise the Group's management standard and to optimize operational efficiency, as well as mutually benefit each other. In addition, the set-up of this jointly controlled entity has brought to the Group a onetime gain of approximately HK$125,192,000, driving the Group's profit for the year ended 31 December 2011 (the "Year") to surge approximately by 1.7 times as compared with last year.

Mr Wang Zhiqiang ***Chairman*** *Mr Wang Xubing* ***President***

Despite that the Group had no new major customers in the past year, but deepening and strengthening the business of existing customers enabled us to achieve a decent profitable performance in the uncertain global economic situation, and to keep up our leading position in the outsourcing software development industry.

Human resources are the bottlenecks of overall development of the industry. The shortage of professional software development talents and the persistent pressure of wage increase have impeded the development of the industry. In order to attract outstanding professionals and to retain employees of good production efficiency, the Group made major reforms in talent assessment and employee incentives policies during the Year, and has achieved the desired results.

OUTLOOK

China's economy is currently facing a difficult transition and the downside risk is increasing. As Premier Wen Jiabao forecasted in government working report presented in the Eleventh National People's Congress, the growth of China's economy in 2012 will be only 7.5%. However, the economic transition has provided opportunities to the software industry. According to the "12th Five-Year" Plan on software and information technology service industry, the growth rate of software industry in the period of "12th Five-Year" will reach 25%. By the end of 2015, the total industry revenue is expected to achieve Renminbi ("RMB") 4 trillion. To promote the rapid development of software industry in the Mainland China, the Plan will focus on grooming leading enterprises, and provide tax incentives to make sure that the objective economic environment of software industry will not only be unaffected by the deterioration in overall economic climate, but also will be benefited from it. We believe that the Group can enjoy such benefits.

The Group is committed to develop a broader business income sources, but the results over the past years were not impressed. After end of the Year, the Group has finally made the first step of expansion breakthrough to subscribe approximately 33.5% of the enlarged issued capital of Gotoura Limited at a consideration of RMB20 million. Such investment enables the Group to balance its information technology techniques and software development experience by diversifying its investment into new business areas with rapid growth and high potential. Although the related investment will broaden the Group's business foundation, the Group's core business will remain unchanged to concentrate on its outsourcing software development service in the near future, and Japan will continue to be our key market.

Furthermore, in the Group's future development, we will explore new ideas, search for new business growth innovation, and look for breakthroughs in the e-commerce field. At the same time, we hope to upgrade the Group's operating strength through capital operation to cope with new opportunities in the future.

Last but not least, I, on behalf of the Board of Directors, would like to extend my gratitude to all the staff of the Company for their dedicated efforts in the past year, and would like to thank all shareholders and business partners for their support and trust to the Group.

By Order of the Board
Wang Zhiqiang
Chairman
Hong Kong, 28 March 2012

Management Discussion and Analysis

REVIEW OF RESULTS AND OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2011 was approximately HK$684,942,000, representing a increase of approximately 12.4% when compared to 2010. The increase did not include turnover of SinoCom DIR Business Innovative Co., Ltd. ("SinoCom DIR") and its subsidiaries after 25 August 2011, the date on which was deemed disposal of SinoCom DIR ("Deemed Disposal"). Turnover derived from outsourcing software development work increased by approximately 14.7% to approximately HK$674,000,000. Business with the Group's two largest customers recorded different trends of positive and negative growth respectively on year to year basis. The negative growth was a result of non-full year consolidation due to Deemed Disposal. Top five customers accounted for approximately 78.8% of the total turnover. Provision of technical support services turnover decreased by approximately 50.0% to approximately HK$10,942,000. Turnover from outsourcing software development services and from technical support services accounted for approximately 98.4% and 1.6% of the total turnover respectively.

Average full time production headcounts were 2,023 for the year ended 31 December 2011, a reduction of 286 or 12.4% from that of 2,309 last year. Headcounts of SinoCom DIR and its subsidiaries after Deemed Disposal have not been counted in the calculation of average full time production headcounts and hence the reduction.

Gross profit for the year increased to approximately HK$178,377,000 or 18.5% increase, when compared to the gross profit of HK$150,549,000 in 2010. The Group's gross profit margin was approximately 26.0% in 2011 (2010: 24.7%). Improvement in productivity and employee utilization rates accounted for the increase in gross margin.

Operating profit and net profit attributable to owners of the Company in 2011 increased by approximately 140.8% and 170.0% to HK$223,562,000 and HK$186,358,000 respectively. Operating margin and net profit margin in 2011 were approximately 32.6% and 27.2% respectively. Both margin increases was mainly due to gain on Deemed Disposal. Excluding the gain on Deemed Disposal net of deferred tax, effective tax rate was approximately 24.8% (2010: 24.9%).

LIQUIDITY AND FINANCIAL RESOURCES

Since inception, the Group has funded its operations through equity funding and operating cash flows and has no bank borrowings. The Group continued to maintain this strong cash generating capability for the year ended 31 December 2011. During the year, the Group financed its operations and investing activities solely with internally generated cash flows. There were no bank borrowings as at 31 December 2011.

SHARE CAPITAL

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

As at 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Company's share option scheme was 31,526,000 (2010: 35,606,000), representing 2.8% (2010: 3.2%) of the shares of the Company in issue at that date.

PLEDGE OF ASSETS

As at 31 December 2011, the Group had not pledged any of its assets.

EMPLOYEES AND REMUNERATION POLICY

The Group excluding jointly controlled entities had 1,616 full time staff as at 31 December 2011 (2010: 2,303). Most of them were engineers located in China. There were also 181 employees in Japan, most of them were bridged system engineers, worked at customers' locations in Japan. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group also offers project bonus and performance bonus to its staff. Project bonus is calculated by allowing a fixed amount per man-month of work completed in a project and distributed among staff engaged according to their respective contributions in the project. Performance bonus is calculated based on an evaluation of individual efforts and the financial performance of the Group. Adequate resources are preserved for Japanese language training on a regular basis, new I.T. knowledge training and business domain knowledge training for each project before commencement of a project. On the job training is also provided after a project commenced. The Group maintains social insurance schemes for retirement, unemployment, personal injury and hospitalization for all of its employees in China. A housing provident fund system has also been implemented for its employees in China. Staff in Japan are enrolled under the requisite pension fund and health scheme as required by Japanese law.

FOREIGN EXCHANGE AND CURRENCY RISKS

Since most of the Group's revenue was generated from software development outsourced from Japan in Japanese Yen ("JPY") while expenses were settled in RMB, any depreciation of JPY against RMB, will reduce the income of the Group measured in RMB and have an adverse impact on the profitability of the Group. There was no effective hedging tool suitable to reduce this exchange rate exposure in consideration of the monthly recurring nature of JPY revenue from the management's point of view. The group strategy was to changing JPY into RMB immediately upon receipt. The Group planned to expand its business with revenue in RMB to diversify partially this risk.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2011, the Group had no material capital commitments.

Directors' Profile

EXECUTIVE DIRECTORS

Mr Wang Zhiqiang

Mr Wang Zhiqiang (王志強), aged 48, is the chairman of the Board and the chief executive officer of the Group. He has been a member of the senior management since the establishment of SinoCom Computer System (Beijing) Co., Ltd. (中訊計算機系統（北京）有限公司) ("SinoCom Beijing") in August 1995. Mr Wang is responsible for the formulation of corporate strategies, and oversees financial and human resources management of the Group. He has more than ten years' experience in the information technology industry. He graduated from the Northern Jiaotong University (北方交通大學) in 1984 and obtained a bachelor's degree in computer studies. Before founding the Group in 1995, he worked in Beijing Oracle Software Systems Co., Ltd. from 1990 to 1994 during which period he was engaged as sales representative, senior sales representative and business manager and was responsible for the sales and marketing of its products.

Mr Wang Xubing

Mr Wang Xubing (王緒兵), aged 49, is the president and a founder of the Group. Mr Wang is responsible for the management and business development of the Group. He has more than ten years' experience in software development and corporate management. Mr Wang graduated from Northern Jiaotong University in 1987 with a master's degree in computer studies. Before founding the Group in August 1995, Mr Wang worked in Japan from 1988 to 1994. During that period, Mr Wang gained experience in software development and technical management during his employment with テー•エス•デー株式会社(TSD) and 日中コミュニケーションズ株式会社(JCC). After returning to the PRC from Japan, Mr Wang established SinoCom Beijing in 1995 at which time P.R.O. Co., Ltd. held an approximately 77% equity interest in SinoCom Beijing as nominee on his behalf.

Dr Shi Chongming

Dr Shi Chongming (時崇明), aged 57, is an executive director and the managing director of SinoCom Japan Corporation (日本中訊株式會社). Dr Shi graduated from Shenyang Institute of Technology (瀋陽機電學院) in 1982 with a bachelor's degree in electronic engineering. He then obtained a master's degree in engineering from Northeast China Heavy Machinery Institute (東北重型機械學院) in 1984. He then continued his studies in Japan and obtained a doctorate in engineering from Hokkaido University in 1988. In 1991, Dr Shi worked as the chief engineer in Think Co., Ltd., a software company in Japan. From June 1994 to June 1999, Dr Shi worked for Sysnauts Co., Ltd. as its senior managing director. He joined the Group in July 1999.

Mr Siu Kwok Leung

Mr Siu Kwok Leung (邵國樑), aged 49, is an executive director as well as the chief financial officer and the company secretary of the Company. He is responsible for budget preparation, cost control, investment and financing, and merger and acquisition activities of the Group. He is also responsible for the management of the finance department of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr Siu graduated from Hong Kong Polytechnic University with a professional diploma in accountancy in 1986. He then obtained a master's degree in finance from the Chinese University of Hong Kong in 1999, and a master's degree in commerce from the University of Hong Kong in 2001. Mr Siu was a senior accounting officer of KPMG in Hong Kong from 1986 to 1988; a financial accountant of the Dairy Farm Group from 1988 to 1990; and a finance and administration manager of Oracle Systems Hong Kong Limited from 1990 to 1991. He was then appointed as the financial controller and subsequently an executive director of Star Entertainment (International Holding) Limited from 1991 to 1996; the financial controller of Kessel Electronics (HK) Ltd. from 1997 to 2000; and the finance and operations directors of Emphasis Media Limited of the Time Warner Group in Hong Kong from 2000 to 2001. Mr Siu joined the Group in 2002.

NON-EXECUTIVE DIRECTOR

Mr Wang Nengguang

Mr Wang Nengguang (王能光), aged 54, is the vice president and the chief financial officer of Legend Capital Limited, which engages in venture capital investments. Mr Wang holds a master's degree (研究生) in economics management from the Chinese Communist Central Academy (中共中央黨校). Since 1994, Mr Wang has been appointed as general manager of the finance department of the Lenovo Group Limited, a company the shares of which are listed on the Main Board of the Stock Exchange. He was appointed as a director in February 2003. He was appointed as a non-executive director of China Sunshine Paper Holdings Company Limited, a company listed on the Main Board of the Stock Exchange, in November 2007.

Mr Pang Chor Fu

Mr Pang Chor Fu (彭楚夫), aged 44, obtained his Bachelor of Science from Boston University in 1990 and later obtained his Master in IT Education from University of Wollongong and EMBA from Beijing University. Mr Pang was a System Engineer of Toshiba group in Japan and founded various education and IT enterprises in Hong Kong since his return from Japan in 1993. Mr Pang currently serves as a president of DW Education Group and Carefree Times International Limited, companies focusing on investment, information technology and education business. He is an active member of several business communities in Hong Kong. Besides being a director of The Chinese General Chamber of Commerce (香港中華總商會) and vice-chairman of its Youth Committee, he is also a director of The Hong Kong Chinese Importers' & Exporters' Association (香港中華出入口商會), the vice-chairman of its IT and eCommerce Committee and the vice-chairman of Hong Kong & Mainland Software Industry Cooperation Association (香港軟件行業協會). Mr Pang is also a member of CreatSmart Initiative of Hong Kong and the Information & Communications Technology Services Advisory Committee of Hong Kong Trade Development Council. Mr Pang was appointed as an independent non-executive director in February 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Lee Kit Wah

Mr Lee Kit Wah (李傑華), aged 57, graduated from University of Toronto in 1979 with a bachelor's degree in Commerce. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and a member of the Institute of Chartered Accountants in England and Wales. Mr Lee was trained at Price Waterhouse (presently PricewaterhouseCoopers) in Hong Kong from 1979 to 1984, and worked at F. S. Li & Co., Certified Public Accountants between 1985 to 1988 first as an audit supervisor and then as an audit manager. He has been practising as a certified public accountant in Hong Kong since 1988 and is the managing director of an accounting firm, Katon CPA Limited. He was appointed as an independent non-executive director in March 2004. Mr Lee is also an independent non-executive director of ITC Corporation Limited ("**ITC**") and an independent non-executive director of Datronix Holdings Limited, both listed on the Stock Exchange.

Professor Liang Neng

Professor Liang Neng (梁能), aged 60, was appointed as the independent non-executive director in 2008. He is the Professor of Management and Associate Dean of Faculty at the China Europe International Business School ("**CEIBS**"). Previously he was a tenured Professor of Management at Loyola University of Maryland, USA, and a professor of management at the China Centre for Economic Research of Beijing University. From 1998 to 2001, he served as the first Chinese director of the Beijing International MBA program at Beijing University. Professor Liang received his Ph.D. from Indiana University (Bloomington), an MBA from The Wharton School, and was a Fulbright Scholar at Stanford University in 1984. He received three Academy of Management Best Paper awards in 2005, and CEIBS Teaching Excellence Award in 2007 and 2010.

Professor Liang served as a consultant to multinational firms such as General Electric Company, Johnson & Johnson and PepsiCo Inc., as a vice president of the Chinese Economists Society ("**CES**"), and as the Chairman of the Baltimore-Xiamen Sister City Committee of the Municipal Government of Baltimore, USA. He was elected vice president of the International Association of Chinese Management Research (IACMR) in July 2011 and would take up the position officially in June 2012.

The directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 30.

The directors now recommend the payment of a final dividend of HK3.5 cents per share per share to the shareholders on the register of members on 29 May 2012, amounting approximately to HK$39,000,000 on the basis that no further shares are issued or repurchased prior to that date.

SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's financial information is set out on page 4.

PLANT AND EQUIPMENT

Details of the movements during the Year in the plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL AND SHARE BASED PAYMENTS

Details of movements during the Year in the share capital and share based payments of the Company are set out in note 22 & 24 respectively to the consolidated financial statements.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2011, the Company's reserves available for distribution to shareholders were approximately HK$194,168,000 comprising of contributed surplus of approximately HK$29,412,000 and share premium of approximately HK$164,756,000.

Under the Companies Law of the Cayman Islands, the contributed surplus and share premium accounts are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 32 of this annual report.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 78.8% of the total sales for the Year and sales to the largest customer included therein amounted to 42.2%. Purchases from the Group's five largest suppliers accounted for 22.7% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 5.4%.

Nomura Research Institute Inc. which owns 6.5% of the Company's issued share capital is one of the Group's five largest customers. Save as disclosed, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the Year and up to the date of this report were:

Executive directors:

Mr Wang Xubing
Mr Wang Zhiqiang
Dr Shi Chongming
Mr Siu Kwok Leung

Non-executive director:

Mr Wang Nengguang
Mr Pang Chor Fu

Independent non-executive directors:

Prof Liang Neng
Mr Lee Kit Wah

In accordance with the provisions of the Company's Articles of Association, one third of the directors for the time being will retire by rotation and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

All non-executive directors have been appointed for a term of one year and either the non-executive director or the Company may terminate the appointment at any time by giving the other party at least one month's notice in writing.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding Company, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2011 or at any time during the Year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 December 2011, the interests and short positions of the directors and the chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(a) Interests in the Company

Name of directors	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
Mr Wang Xubing	Interest of a controlled corporation	563,000,000 (L)	1	50.54%
Mr Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)	2	50.54%
Dr Shi Chongming	Beneficial owner	5,543,200 (L)		0.50%
Mr Siu Kwok Leung	Beneficial owner	4,280,000 (L)		0.38%

Notes:

1. These shares are beneficially owned by China Way International Limited ("China Way"). By virtue of his 51% shareholding interest in China Way, Mr Wang Xubing is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.

2. These shares are beneficially owned by China Way. By virtue of his 49% shareholding interest in China Way, Mr Wang Zhiqiang is deemed or taken to be interested in the 563,000,000 shares of the Company owned by China Way for the purpose of the SFO.

3. The letter "L" denotes a long position in shares.

(b) Interests in shares of associated corporations of the Company

Name of associated corporation	Name of director	Capacity/Nature of interest	Number of ordinary shares of US$1.00 each	Percentage of shareholding
China Way	Mr Wang Xubing	Interest of a controlled corporation	51 (L)	51%
China Way	Mr Wang Zhiqiang	Interest of a controlled corporation	49 (L)	49%

Note: The letter "L" denotes a long position in shares.

Save as disclosed above, as at 31 December 2011, there was no other director or chief executive of the Company who had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were recorded in the register maintained by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

As at 31 December 2011, no option was granted to directors to acquire shares in the Company. At no time during the Year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that enabled any directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that (other than the interests disclosed above in respect of certain directors and chief executives), the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	Capacity/Nature of interest	No. of shares of the Company	Notes	Approximate percentage of shareholding
China Way	Beneficial owner	563,000,000 (L)		50.54%
Wang Xubing	Interest of a controlled corporation	563,000,000 (L)		50.54%
Wang Zhiqiang	Interest of a controlled corporation	563,000,000 (L)		50.54%
Madam Zhang Yue	Interest of spouse	563,000,000 (L)	1	50.54%
Madam Yuan Yue Ling	Interest of spouse	563,000,000 (L)	2	50.54%
FMR LLC	Beneficial owner	77,560,000 (L)		6.96%
Commonwealth Bank of Australia	Beneficial owner	77,182,000 (L)		6.93%
Nomura Holdings, Inc.	Interest of a controlled corporation	72,356,100 (L)		6.50%
Nomura Research Institute, Inc.	Beneficial owner	72,356,100 (L)		6.50%

Notes:

1. Madam Zhang Yue is the wife of Mr Wang Xubing and is deemed to be interested in the 563,000,000 shares in which Mr Wang Xubing is deemed or taken to be interested for the purposes of the SFO.

2. Madam Yuan Yue Ling is the wife of Mr Wang Zhiqiang and is deemed to be interested in the 563,000,000 shares in which Mr Wang Zhiqiang is deemed or taken to be interested for the purposes of the SFO.

3. The letter "L" denotes a long position in shares.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the Year to subscribe for shares of HK$0.025 each in the Company granted under the share option scheme are, set out in note 24 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in the section "share option scheme", at no time during the Year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTINUOUS CONNECTED TRANSACTIONS

On 21 March 2011, the Company and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI") entered into a master service agreement, pursuant to which the Company has conditionally agreed to, on request, and subject to availability of resources, provide and procure members of the Group to provide the following services (the "Services") to members of the DIR-BI Group:

(a) system engineering services;

(b) programming services;

(c) system consulting services;

(d) operation services for computer utilization systems; and

(e) other services ancillary to or relating to the foregoing.

The price of the Services will be determined by the relevant parties to each individual contract on an arm's length negotiation having regard to the quantity, specifications and/or other conditions of the Services to be provided on the basis of (a) the price at which the relevant member of the Group provides the same or similar service to independent third parties; (b) the price at which any independent third party in the relevant market provides the same or similar service to other independent third parties; or (c) the price determined with reference to industry standards or market practices of the market of the same or similar services.

During the period from 27 April 2011 to 31 December 2011 (the "Period"), individual contracts were entered into between the relevant members of the Group and DIR-BI Group (DIR-BI and its associates), respectively, in respect of the Services provided setting out the specific terms and conditions and such contracts were subject to the terms of the master service agreement and in the form and content acceptable to the Company and DIR-BI. Provision of the Services under those contracts for the Period ("Continuous Connected Transactions") was approximately JPY1,671 million (equivalent to approximately HK$166 million) in aggregate.

As disclosed in the Circular dated 12 April 2011, the annual cap of the provision of the Services for the Period is JPY 2,600 million. The aggregate provision of the Services for the Period was JPY 1,671 million. The Board, including the independent non-executive Directors, has reviewed and confirmed that the Continuing Connected Transactions for the Period were entered into:

(i) in the ordinary course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

(iii) in accordance with the master service agreement governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the Continuous Connected Transactions and the auditor has reported the factual findings on these procedures to the Board committee.

The auditor of the Company has confirmed to the Board in writing in respect of the Continuous Connected Transactions:

(a) were approved by the Board;

(b) were in accordance with the pricing policy of the Group;

(c) were entered into in accordance with individual contracts, terms of which were consistent to those of master service agreement, governing the transactions; and

(d) did not exceed the relevant cap amount for the Period as set out on the circular dated 12 April 2011.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by Salary Review Committee on the basis of their merit, qualifications and competence.

The emolument of directors of the Company are decided by Salary Review Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

CORPORATE GOVERNANCE

During the year ended 31 December 2011, the Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") except A.2.1 that Mr Wang Zhiqiang had been both the Chairman and Chief Executive Officer of the Company and the Board considers that vesting the roles of Chairman and Chief Executive Officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board will nevertheless review the structure from time to time and consider the appropriate adjustment should suitable circumstances arise.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule. Having made specific enquiry of all directors, all directors confirmed they have complied with the Model Code and the Code of Conduct regarding securities transactions by directors adopted by the Company. Dr. Shi Chongming, an executive Director, advised the Board on 28 March 2012 that he purchased 1,000,000 shares ("Shares") of the Company on 7 October 2011 on the Stock Exchange at a price of HK$0.5 per Share and 500,000 Shares on 10 October 2011 on the Stock Exchange at a price of HK$0.5 per Share. Save as disclosed above, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the Year.

The Company has received a written confirmation in respect of independence from each of the Independent Non-executive director of the Company in compliance with rule 3.13 of the Listing Rules and the Company still considers that each of them to be independent.

Further, following the re-designation of Mr. Pang Chor Fu as a non-executive Director on 6 March 2012, the number of independent non-executive Directors falls below the minimum number required under Rule 3.10(1) of the Listing Rules. The Company is in the process of identifying suitable candidate to fill the vacancy of the independent non-executive Director under the Listing Rules as soon as practicable (and in any event not later than the three month period stipulated by Rule 3.11 of the Listing Rules), in order to ensure compliance by the Company with Rule 3.10 of the Listing Rules.

AUDITORS

Deloitte Touche Tohmatsu have acted as auditors of the Company for the past nine years.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Wang Zhiqiang
Chairman

Hong Kong, 28 March 2012

Corporate Governance Report

COMMITMENT TO CORPORATE GOVERNANCE

The Company emphasizes on corporate governance and committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time. The Company has applied and complied with all the provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except the deviation disclosed herein.

BOARD OF DIRECTORS

During the year under review (i.e. from 1 January 2011 to 31 December 2011) ("Reporting Period"),the board comprised eight directors, including four executive directors, namely Mr Wang Zhiqiang, Mr Wang Xubing, Dr Shi Chongming and Mr Siu Kwok Leung, one non-executive director Mr Wang Nengguang, and three independent non-executive directors ("INED"), namely Mr Lee Kit Wah, Professor Liang Neng and Mr Pang Chor Fu. All INEDs have complied with the requirements of the Listing Rules and have submitted to the Company annual confirmations of independence pursuant to Rule 3.13 of the Listing. The Directors consider that all the three INEDs were able to fulfill the independence requirements for independent non-executive directors under the Listing Rules and were capable of effectively exercising independent judgment during the Reporting Period.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company and that the current board size as adequate for its present operations. Detailed biographies outlining each director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the Section of "Directors' Profile".

The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group; to supervise the management of the business and affairs with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the Reporting Period, the Board reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December 2010 and 30 June 2011 respectively; approved the setting up of a joint venture and continuing connected transactions; reviewed and approved the grant of share option; reviewed internal controls taken by the Group; and other significant operational and financial matters.

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Board held totally four Board meetings during the Reporting Period. Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among executive directors. Directors' meetings called for this purpose was not counted towards the Director's attendance statistics. Sufficient notices for regular board meetings and notice of reasonable number of days for non-regular board meetings were given to all directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all directors in a timely manner. If necessary, Directors also had recourse to external professional advice at the Group's expense. During the intervals between Board meetings, directors are kept apprised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all directors at request.

The number of Board meetings attended by each director during the Reporting Period is set out in the following table.

	Directors' attendance*
Executive directors	
Mr Wang Zhiqiang (Chairman & CEO)	4/4
Mr Wang Xubing (President)	4/4
Dr Shi Chongming	4/4
Mr Siu Kwok Leung	4/4
Non-executive director	
Mr Wang Nengguang	2/4
Independent non-executive directors	
Mr Lee Kit Wah	4/4
Professor Liang Neng	4/4
Mr Pang Chor Fu	4/4

* Board meetings for the purpose of granting stock options or allotment of shares to exercised options in accordance to the terms set out in the Company's approved option scheme are delegated to meetings among Executive Directors. Directors' meetings called for this purpose was not counted towards the Director's attendance statistics. There was one such meeting in which all Executive Directors attended.

NON-EXECUTIVE DIRECTORS

The non-executive directors, together with the other Directors of the Company are subject to retirement by rotation and re-election in accordance with the Company's Memorandum and Articles ("M&A") at each annual general meeting. They are expected to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the board under is M&A, by-laws and applicable laws, rules and regulations. All fees paid to non-executive directors for their services to the Group are subject to annual review and approval by the Salary Review Committee.

Following the re-designation of Mr. Pang Chor Fu as a non-executive Director on 6 March 2012, the number of independent non-executive directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules. As at date of this report, the Company was in the process of identifying suitable candidate to fill the vacancy of the independent non-executive Director under the Listing Rules as soon as practicable (and in any event not later than 5 June 2012, the expiry date of the three month period stipulated by Rule 3.11 of the Listing Rules), in order to ensure compliance by the Company with Rule 3.10 of the Listing Rules.

NOMINATION OF DIRECTORS

For nomination, the Board will take into consideration of the nominee's qualifications, capabilities and potential to make contribution to the Company. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new director.

The Articles of Association of the Company allows the Company to remove its directors by an ordinary resolution passed in a general meeting.

A Nomination Committee has been formed on 28 March 2012 comprising three members, namely Mr. Wang Zhiqiang, Mr. Lee Kit Wah and Professor Liang Neng.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code provision A.2.1 stipulated the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company considers that the chairman is responsible for the operation of the board and the CEO is responsible for managing the operations of the Group, and the responsibilities are clearly set out in writing and approved by the Board. Mr Wang Zhiqiang has been both the chairman and CEO of the Company, which deviated from the provisions set out in the Code. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions and dealing (the "Code of Conduct") by Directors on terms no less exacting than the required standard set out in Appendix 10 to Listing Rule (the "Model Code") and the Company has made specific enquiry of all Directors as to whether they have complied with the required standard set out in the Model Code and the Code of Conduct during the Reporting Period. Dr. Shi Chongming, an executive Director, advised the Board on 28 March 2012 that he purchased 1,000,000 shares ("Shares") of the Company on 7 October 2011 on the Stock Exchange at a price of HK$0.5 per Share and 500,000 Shares on 10 October 2011 on the Stock Exchange at a price of HK$0.5 per Share. Save as disclosed above, all the Directors have confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the Reporting Period.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the representations contained in the financial statements of the Group for the Reporting Period. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong. Having made appropriate enquiries, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The financial statements of the Company for the year ended 31 December 2011 have been reviewed by the audit review committee of the Company (the "Audit Committee") and audited by the external auditors, Messrs. Deloitte Touche Tohmatsu. For the year ended 31 December 2011, the audit fee was approximately HK$2,933,000 and the non-audit service fee was HK$13,000 (for tax filing). The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report".

SALARY REVIEW COMMITTEE

The salary review committee of the Company (the "Salary Review Committee") comprising five members with a majority of INEDs, namely Mr Pang Chor Fu, Professor Liang Neng, and Mr Lee Kit Wah, Mr Wang Zhiqiang and Mr Wang Nengguang and is chaired by Mr Pang Chor Fu, which meets at least once a year.

The primary objectives of Salary Review Committee, inter alia, is to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and directors; review and recommend the Board the annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company.

No directors and executives can determine his own remuneration. During the Reporting Period, the Salary Review Committee held one meeting for review and approval of the remuneration policy of the Group. Minutes of the meeting of the Salary Review Committee are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

During the Reporting Period, one meeting regarding the remuneration policy review was held, and details of the attendance of the meeting are as follows:

	Directors' Attendance
Mr Wang Zhiqiang (Chairman & CEO)	1/1
Mr Wang Nengguang	1/1
Mr Lee Kit Wah	1/1
Professor Liang Neng	1/1
Mr Pang Chor Fu	1/1

According to Rule 3.25 of the Listing Rules (which was effective on 1 April 2012), an issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors. As Mr. Pang Chor Fu was re-designated as a non-executive Director on 6 March 2012, the Company failed to meet the requirements of Rule 3.25 of the Listing Rules to have the Salary Review Committee chaired by an INED. As at the date of this report, the Company was in the process of nominating suitable candidate to chair the Salary Review Committee pursuant to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has three members, namely Mr. Lee Kit Wah, Mr. Pang Chor Fu, and Professor Liang Neng. During the Reporting Period, all of them were independent non-executive directors and none of them are members of the former or existing auditors of the Company. The Audit Committee held two meetings during the Reporting Period which were chaired by Mr Lee Kit Wah who is a qualified accountant. The Board considers the Audit Committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgements contained therein; and to review financial and internal controls, accounting policies and practices with management and external auditors.

The Audit Committee reviewed and discussed with the management the accounting principles and practice adopted by the Group and auditing, internal controls and financial reporting matters. The audited financial statements of the Group for the financial year ended 31 December 2011 have been reviewed by the Audit Committee.

The Audit Committee held two meetings during the Reporting Period, which were attended by the external auditors, Deloitte Touche Tohmatsu. Details of the attendance of the Audit Committee Meetings are as follows:

	Directors' Attendance
Mr Lee Kit Wah	2/2
Professor Liang Neng	2/2
Mr Pang Chor Fu	2/2

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group reviewed the Group's internal control and risk management system for the Reporting Peirod and submitted the results of the review and its recommendations and opinions for consideration by the Audit Committee and the Board.

INVESTOR RELATIONS

During the Reporting Period, the Group proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its mandatory interim and final reports, and timely distribution of press releases. The corporate website of the Company provides an effective communication platform to keep the public abreast of its latest developments. Regular meetings and visits have been organised to enhance understanding of the institutional investors and analysts on Group's business and operations.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful forum for the shareholders of the Company to exchange views with the Board. The members of the Board are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue. Details of poll voting procedures are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF SINOCOM SOFTWARE GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of SinoCom Software Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 98, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Revenue	5 & 6	**684,942**	609,432
Cost of services		**(506,565)**	(458,883)
Gross profit		**178,377**	150,549
Administrative expenses		**(111,359)**	(87,092)
Share of profit of jointly controlled entities		**2,257**	–
Gain on deemed disposal of subsidiaries	26	**125,192**	–
Other gains (losses)	7	**29,095**	29,390
Profit before tax		**223,562**	92,847
Income tax expense	8	**(36,925)**	(23,101)
Profit for the year	9	**186,637**	69,746
Other comprehensive income			
Exchange differences arising on translation from functional currency to presentation currency		**22,675**	14,336
Reclassification adjustment on translation difference upon liquidation/disposal of subsidiaries		**107**	(2,587)
Other comprehensive income for the year, net of income tax		**22,782**	11,749
Total comprehensive income for the year		**209,419**	81,495
Profit for the year attributable to:			
Owners of the Company		**186,358**	69,010
Non-controlling interests		**279**	736
		186,637	69,746
Total comprehensive income attributable to:			
Owners of the Company		**208,968**	80,631
Non-controlling interests		**451**	864
		209,419	81,495
Earnings per share			
– Basic	13	**16.73 cents**	6.18 cents
– Diluted	13	**16.72 cents**	6.17 cents

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
Non-current assets			
Plant and equipment	14	**12,484**	12,564
Goodwill	15	**7,111**	6,775
Other deposits	16	**3,097**	4,605
Deferred tax assets	23	**9,017**	3,438
Interests in jointly controlled entities	17	**157,263**	–
		188,972	27,382
Current assets			
Trade and other receivables	18	**103,634**	111,231
Amount due from a related party	31	**4,072**	–
Held for trading investments	19	**–**	100
Bank balances and cash	20	**606,067**	613,978
		713,773	725,309
Current liabilities			
Trade and other payables	21	**107,596**	102,537
Amount due to a related party	31	**5,261**	–
Tax liabilities		**11,665**	6,887
		124,522	109,424
Net current assets		**589,251**	615,885
		778,223	643,267
Capital and reserves			
Share capital	22	**27,850**	27,847
Reserves		**724,879**	593,683
Equity attributable to owners of the Company		**752,729**	621,530
Non-controlling interests		**3,654**	4,338
Total equity		**756,383**	625,868
Non-current liabilities			
Deferred tax liabilities	23	**21,840**	17,399
		778,223	643,267

The consolidated financial statements on pages 30 to 98 were approved and authorised for issue by the Board of Directors on 28 March 2012 and are signed on its behalf by:

Wang Zhiqiang
DIRECTOR

Wang Xubing
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Equity attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Share redemption reserve HK$'000 (Note e)	Capital reserve HK$'000 (Note a)	Other reserve HK$'000 (Note b)	General reserve fund HK$'000 (Note c)	Shareholder's contribution HK$'000 (Note d)	Translation reserve HK$'000	Share option reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Equity attributable to non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2010	27,868	162,989	1,623	10,657	5,078	26,506	2,726	66,574	20,609	272,583	597,213	3,852	601,065
Other comprehensive income													
– Exchange difference arising on translation from functional currency to presentation currency	–	–	–	–	–	–	–	14,208	–	–	14,208	128	14,336
– Reclassification adjustment upon liquidation of a subsidiary	–	–	–	–	–	–	–	(2,587)	–	–	(2,587)	–	(2,587)
Profit for the year	–	–	–	–	–	–	–	–	–	69,010	69,010	736	69,746
Total comprehensive income for the year	–	–	–	–	–	–	–	11,621	–	69,010	80,631	864	81,495
Exercise of share options (note 22(ii))	72	2,227	–	–	–	–	–	–	(496)	–	1,803	–	1,803
Repurchase and cancellation of shares (note 22(i))	(93)	(553)	646	–	–	–	–	–	–	(3,396)	(3,396)	–	(3,396)
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	–	1,122	–	1,122	–	1,122
Acquisition of additional equity interests of a subsidiary (note 25)	–	–	–	–	–	–	–	–	–	28	28	(409)	(381)
Transfer upon forfeiture of share options	–	–	–	–	–	–	–	–	(2,237)	2,237	–	–	–
Contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	31	31
Dividends recognised as distribution (note 12)	–	–	–	–	–	–	–	–	–	(55,871)	(55,871)	–	(55,871)
Balance at 31 December 2010	27,847	164,663	2,269	10,657	5,078	26,506	2,726	78,195	18,998	284,591	621,530	4,338	625,868
Other comprehensive income													
– Exchange difference arising on translation from functional currency to presentation currency	–	–	–	–	–	–	–	22,503	–	–	22,503	172	22,675
– Reclassification adjustment upon liquidation/disposal of subsidiaries	–	–	–	–	–	–	–	107	–	–	107	–	107
Profit for the year	–	–	–	–	–	–	–	–	–	186,358	186,358	279	186,637
Total comprehensive income for the year	–	–	–	–	–	–	–	22,610	–	186,358	208,968	451	209,419
Exercise of share options (note 22(iii))	3	93	–	–	–	–	–	–	(21)	–	75	–	75
Recognition of equity-settled share based payments expenses	–	–	–	–	–	–	–	–	27	–	27	–	27
Acquisition of additional equity interests of a subsidiary (note 25)	–	–	–	–	–	–	–	–	–	85	85	(1,135)	(1,050)
Transfer	–	–	–	–	–	1,474	–	–	–	(1,474)	–	–	–
Transfer upon forfeiture of share options	–	–	–	–	–	–	–	–	(2,007)	2,007	–	–	–
Dividends recognised as distribution (note 12)	–	–	–	–	–	–	–	–	–	(77,956)	(77,956)	–	(77,956)
Balance at 31 December 2011	27,850	164,756	2,269	10,657	5,078	27,980	2,726	100,805	16,997	393,611	752,729	3,654	756,383

Note a: The capital reserve of the Group represents the difference between the paid-in capital of the subsidiaries acquired pursuant to a group reorganisation and the nominal value of the Company's shares issued in exchange therefor.

Note b: The other reserve of the Group represents the capitalisation of general reserve fund and enterprise expansion fund in SinoCom Computer System (Beijing) Co., Ltd. ("SinoCom Beijing", formerly known as "Zhongxun Computer System (Beijing) Co., Ltd.") as share capital of SinoCom Beijing in year 2003.

Note c: In accordance with the law and regulations in the People's Republic of China (the "PRC") on foreign enterprises, PRC subsidiaries of the Company are required to set aside 10% of its net profit to the general reserve fund until the fund aggregates to 50% of its registered capital. In accordance with their articles of association, PRC subsidiaries of the Company may transfer such amount of profits (after taxation) as determined by their board of directors of the Company to the general reserve fund before distribution to their shareholders. The general reserve fund is non-distributable and can be used to increase the capital of the PRC subsidiaries. The general reserve fund can also be used to make good future losses.

Note d: The shareholder's contribution of the Group represents waiver of an amount due to a shareholder of the Company in 2001.

Note e: The Company repurchased 3,736,000 ordinary shares in 2010. The consideration was paid from the distributable profits of the Company pursuant to the approval of the Board of Directors of the Company. A credit of HK$646,000 arising for the repurchase of shares was transferred to the share redemption reserve in 2010.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**223,562**	92,847
Adjustments for:			
Depreciation of plant and equipment		**4,881**	5,275
Gain on deemed disposal of subsidiaries	26	**(125,192)**	–
Gain on disposal of available-for-sale investments	27	**(6,278)**	–
Allowance for doubtful debts		**6,423**	–
Impairment loss on goodwill		**–**	2,555
Interest income		**(10,550)**	(5,018)
Loss on disposal of plant and equipment		**258**	301
Release of translation reserve on liquidation of a subsidiary		**665**	(2,587)
Share of profit of jointly controlled entities		**(2,257)**	–
Share-based payment expenses		**27**	1,122
Operating cash flows before movements in working capital changes		**91,539**	94,495
(Increase) decrease in trade and other receivables		**(13,776)**	15,518
Decrease (increase) in other deposits		**1,508**	(2,549)
(Increase) decrease in amount due from a related party		**(4,072)**	3,975
Decrease (increase) in held for trading investments		**100**	(26)
Increase in amount due to a related party		**5,261**	–
Increase in trade and other payables		**32,380**	15,889
Cash generated from operations		**112,940**	127,302
Tax paid		**(27,748)**	(22,567)
Interest received		**10,550**	5,018
NET CASH FROM OPERATING ACTIVITIES		**95,742**	109,753

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Deemed disposal of subsidiaries	26	**(168,338)**	–
Purchases of plant and equipment		**(6,567)**	(4,399)
Deposit received		**95,313**	–
Loan repayment from a jointly controlled entity		**35,886**	–
Proceeds from disposal of plant and equipment		**198**	138
NET CASH USED IN INVESTING ACTIVITIES		**(43,508)**	(4,261)
FINANCING ACTIVITIES			
Dividend paid		**(77,956)**	(55,871)
Acquisition of additional equity interests in a subsidiary		**(1,246)**	(381)
Proceeds from issue of shares upon exercise of share options		**75**	1,803
(Repayment to) advance from a shareholder		**–**	(37,000)
Repurchase of shares		**–**	(3,396)
Dividend paid to a non-controlling shareholder		**–**	(2,011)
NET CASH USED IN FINANCING ACTIVITIES		**(79,127)**	(96,856)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(26,893)**	8,636
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**613,978**	593,751
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**18,982**	11,591
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, REPRESENTED BY BANK BALANCES AND CASH		**606,067**	613,978

1. GENERAL

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Its holding company is China Way International Limited (incorporated in the British Virgin Islands), which is also its ultimate holding company. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The Group is principally engaged in the provision of outsourcing software development services and technical support services.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company because the directors of the Company consider it more appropriate in view of its place of listing.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

New and revised standards, amendments and interpretations applied in the current year

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 24 (as Revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to HKFRSs	Improvements to HKFRSs issued in 2010

The adoption of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on disclosure set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

New and revised standards, amendments and interpretations issued but not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS[9] and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as Revised in 2011)	Employee Benefits[2]
HKAS 27 (as Revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as Revised in 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

New and revised standards, amendments and interpretations issued but not yet effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss ("FVTPL")) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The directors anticipate that the Group will apply HKFRS 9 during its financial year beginning 1 January 2015. Based on an analysis of the Group's financial assets and financial liabilities as of 31 December 2011, the directors do not expect the adoption of HKFRS 9 will have a significant impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

New and revised standards, amendments and interpretations issued but not yet effective (Continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

New and revised standards, amendments and interpretations issued but not yet effective (Continued)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements which are measured as fair value and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entities.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangements of the Group entered into replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of jointly controlled entities equals or exceeds its interest in that jointly controlled entities (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entities), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

Jointly controlled entities (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of jointly controlled entities recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in jointly controlled entities. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entities, profits and losses resulting from the transactions with the jointly controlled entities are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entities that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from provision of outsourcing software development services and technical support services is recognised when the services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliablely. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the initial accounting for the business combination.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Impairment losses (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits costs

Payments to defined contribution retirement benefits plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivable and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets at FVTPL include investments classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivable (including trade and other receivables, amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. An amount equals to share capital and share premium are transferred from retained earnings to share redemption reserve. No gain or loss is recognised in profit or loss on the purchase, sales issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees or points paid or received that from an integral part of the effective interest rate, transaction cost and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

The Group's financial liabilities including trade and other payables and amount due to a related party are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability, when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss

Share-based payment transactions – Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of interests in jointly controlled entities

Determining whether interests in jointly controlled entities are impaired requires an estimation of the value in use of the jointly controlled entities. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the jointly controlled entities and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of interests in jointly controlled entities is HK$157,263,000 (2010:nil).

5. REVENUE

	2011 **HK$'000**	2010 HK$'000
Outsourcing software development services	**674,000**	587,541
Technical support services	**10,942**	21,891
	684,942	609,432

Revenue from outsourcing software development services and technical support services are net of business tax and local government levies of HK$30,845,000 (2010: HK$30,511,000).

6. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (i.e. the Group's Chief Executive Officer) for the purposes of resources allocation and assessment of performance was analysed on the basis of the location of the customers' headquarters.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

Year ended 31 December 2011

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	23,664	661,278	684,942
Cost of services	(23,006)	(483,394)	(506,400)
Gross profit	658	177,884	178,542
Administrative expenses	(8,643)	(87,212)	(95,855)
Share of profit of jointly controlled entities	–	2,257	2,257
Segment profits	(7,985)	92,929	84,944
Gain on deemed disposal of subsidiaries			125,192
Other gains (losses)			29,095
Unallocated corporate expenses			(15,669)
Profit before taxation			223,562

6. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

Year ended 31 December 2010

	PRC HK$'000	Japan HK$'000	Total HK$'000
Revenue	33,747	575,685	609,432
Cost of services	(30,439)	(427,433)	(457,872)
Gross profit	3,308	148,252	151,560
Administrative expenses	(1,814)	(71,315)	(73,129)
Segment profits	1,494	76,937	78,431
Other gains (losses)			29,390
Unallocated corporate expenses			(14,974)
Profit before taxation			92,847

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either year.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment profit represents the profit earned by each segment without allocation of gain on deemed disposal of subsidiaries, other gains (losses), share-based payment expenses, central administration cost, directors' emoluments and impairment loss on goodwill. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

At 31 December 2011

	PRC HK$'000	**Japan HK$'000**	**Total HK$'000**
Segment assets	**493,595**	**349,199**	**842,794**
Unallocated assets			**59,951**
Consolidated total			**902,745**
Segment liabilities	**12,666**	**107,510**	**120,176**
Unallocated liabilities			**26,186**
Consolidated total			**146,362**

At 31 December 2010

	PRC HK$'000	Japan HK$'000	Total HK$'000
Segment assets	419,843	188,513	608,356
Unallocated assets			144,335
Consolidated total			752,691
Segment liabilities	20,257	85,725	105,982
Unallocated liabilities			20,841
Consolidated total			126,823

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated bank balances and cash, goodwill, deferred tax assets, held for trading investments and assets used jointly by operating segments.

- bank balances and cash are allocated to operating segments based on the location of the bank balances and cash.

- all liabilities are allocated to operating segments other than deferred tax liabilities and liabilities for which operating segments are jointly liable.

- liabilities payable to the government department such as tax bureau and social security department are allocated to operating segments based on the location of the tax bureau and social security department.

Other segment information

Year ended 31 December 2011

Amounts included in the measure of segment profit or segment assets:

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'000
Additions to non-current assets (Note)	225	5,823	519	6,567
Depreciation	407	4,089	385	4,881
Loss on disposal of plant and equipment	2	256	–	258

6. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

Year ended 31 December 2010

Amounts included in the measure of segment profit or segment assets:

	PRC HK$'000	Japan HK$'000	Corporate HK$'000	Consolidated HK$'000
Additions to non-current assets (Note)	236	3,934	229	4,399
Depreciation	600	4,401	274	5,275
Loss on disposal of plant and equipment	16	285	–	301

Note: Non-current assets excluded goodwill, interests in jointly controlled entities and deferred tax assets.

Geographical information

The Group's operations are located in the PRC (country of domicile) and Japan.

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	Non-current assets	
	2011 **HK$'000**	2010 HK$'000
PRC (country of domicile)	**19,314**	18,832
Japan	**281**	507
	19,595	19,339

Note: Non-current assets excluded interests in jointly controlled entities, other deposits and deferred tax assets.

6. SEGMENT INFORMATION (Continued)

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Customer A[1]	**289,192**	173,900
Customer B[1]	**169,532**	204,354

[1] Revenue from outsourcing software development services and the Japan segment.

7. OTHER GAINS (LOSSES)

	2011	2010
	HK$'000	HK$'000
Government subsidies	**7,077**	8,707
(Loss) gain on sale of held for trading investments	**(32)**	825
Interest income	**10,550**	5,018
Net foreign exchange gain	**4,504**	14,211
Gain on disposal of available-for-sale investments (note 27)	**6,278**	–
Reclassification adjustment on translation difference upon liquidation of a subsidiary	**(665)**	2,587
Others	**1,383**	597
Impairment loss on goodwill	**–**	(2,555)
	29,095	29,390

Government subsidies include subsidies from local government for the employment of new university graduates of HK$3,292,000 (2010: HK$2,657,000) and for its exports of outsourcing software development services of HK$3,524,000 (2010: HK$4,730,000). There were specific conditions attached to the government subsidies, the Group recognised the government subsidies in the consolidated statement of comprehensive income when it fulfills all the conditions specified in the subsidy notice or relevant law and regulations.

8. TAXATION

	2011 HK$'000	2010 HK$'000
Current tax:		
PRC Enterprise Income Tax	**17,150**	9,297
Japan income tax	**10,783**	6,225
Withholding tax on capital gain on liquidation of a subsidiary	**–**	7,804
PRC withholding tax	**11,432**	–
Overprovision in respect of prior year	**(1,532)**	(3,491)
	37,833	19,835
Deferred tax (note 23):		
Current year	**(908)**	3,266
	36,925	23,101

Under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

SinoCom Beijing is recognised as a high and new technology enterprise by the relevant PRC government authorities from 2009 to 2011. Pursuant to the Income Tax Laws, SinoCom Beijing was entitled to enjoy Enterprise Income Tax of 15%. In addition, SinoCom Beijing was recognised as a key software enterprise under the State plan in 2010 by relevant PRC government authorities in February 2011 under the EIT Law. Accordingly, SinoCom Beijing was entitled to the reduced income tax rate of 10% as compared to the unified tax rate of 25% for the year ended 31 December 2010.

SinoCom Shensoft Computer Technology (Shanghai) Company Limited ("Shensoft Shanghai") was recognised as Service Enterprise with Advanced Technology in January 2011 and was subject to income tax at a tax rate of 15% from 2011 to 2013 in accordance with a joint circular of Ministry of Finance, the State Administration of Taxation, the Ministry of Commerce, the Ministry of Science and Technology and the National Development and Reform Commission, Cai Shui No. 63 of 2009.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits in Hong Kong for either year.

8. TAXATION (Continued)

SinoCom Holdings Japan Co., Ltd., a subsidiary incorporated in Japan, was liquidated during the year ended 31 December 2010 and has provided a withholding tax of HK$7,804,000 on capital gain arising from liquidation pursuant to the tax laws in Japan.

Taxation arising in Japan comprises corporate tax, corporate enterprise tax, special local corporate tax and corporate inhabitant tax. Corporate tax is calculated at a progressive statutory rate of 18% (2010: 18%) on the portion of taxable income not exceeding Japanese Yen ("JPY") 8,000,000 (equivalent to approximately HK$784,000, 2010: HK$764,000) and 30% (2010:30%) on the portion of taxable income in excess of JPY8,000,000. Corporate enterprise tax is calculated at a progressive statutory rate of 2.95% (2010: 2.95%) on the portion of taxable income not exceeding JPY4,000,000 (equivalent to approximately HK$392,000, 2010: HK$382,000), 4.365% (2010: 4.365%) on the portion of taxable income in excess of JPY4,000,000 but not exceeding JPY8,000,000 and 5.78% (2010: 5.78%) on the portion of taxable income in excess of JPY8,000,000. Special local corporate tax is imposed for fiscal years beginning on or after 1 October 2008. Special local corporate tax is calculated at a fixed tax rate of 81% or 148% of corporate enterprise tax, depending on the amount of paid-in capital. Corporate inhabitant tax is calculated at a fixed tax rate of 17.3% or 20.7% of the corporate tax, depending on the amount of the corporate tax per annum, also with a fixed yearly amount from JPY70,000 (equivalent to approximately HK$7,000, 2010: HK$7,000) to JPY200,000 (equivalent to approximately HK$20,000, 2010: HK$19,000), depending on the headcount and capital of the entities.

8. TAXATION (Continued)

The income tax expenses for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011 HK$'000	2010 HK$'000
Profit before taxation	**223,562**	92,847
Taxation at the applicable PRC Enterprise Income Tax rate of 25% (2010: 25%)	**55,891**	23,212
Tax effect of share of profit of jointly controlled entities	**(564)**	–
Tax effect of expenses not deductible in determining taxable profit	**3,957**	3,319
Effect of tax exemption and concessions granted to PRC subsidiaries	**(7,266)**	(15,369)
Withholding tax on capital gain on liquidation of a subsidiary	**–**	7,804
Withholding tax on the profits of PRC subsidiaries	**3,157**	3,632
Tax effect of tax losses not recognised	**1,814**	2,151
Overprovision in respect of prior year	**(1,532)**	(3,491)
Deferred tax changes resulting from change in applicable tax rate	**(3,748)**	–
Effect of different tax rate on deemed gain on disposal of subsidiaries	**(18,779)**	–
Effect of different tax rates of subsidiaries operating in other jurisdiction	**3,995**	1,843
Income tax expenses	**36,925**	23,101

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2011 HK$'000	2010 HK$'000
Auditors' remuneration	2,933	2,861
Depreciation of plant and equipment	4,881	5,275
Loss on disposal of plant and equipment	258	301
Net foreign exchange gain	(4,504)	(14,211)
Impairment losses on trade receivables	6,423	–
Staff costs:		
Directors' emoluments (note 10)	12,083	10,757
Other staff costs		
– Salaries and other benefits	405,052	368,155
– Share-based payment expenses	27	1,122
– Retirement benefits schemes contributions	40,503	35,556
	457,665	415,590

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the four (2010: four) directors were as follows:

	Wang Zhiqiang HK$'000	Wang Xubing HK$'000	Siu Kwok Leung HK$'000	Shi Chongming HK$'000	Total HK$'000
2011					
Salaries and other benefits	2,106	2,106	1,307	2,222	7,741
Retirement benefits scheme contribution	36	36	–	270	342
Bonus (Note)	1,160	1,160	400	1,280	4,000
Total emoluments	3,302	3,302	1,707	3,772	12,083
2010					
Salaries and other benefits	2,058	2,058	1,256	2,015	7,387
Retirement benefits scheme contribution	33	33	–	104	170
Bonus (Note)	1,120	1,120	320	640	3,200
Total emoluments	3,211	3,211	1,576	2,759	10,757

10. DIRECTORS' EMOLUMENTS (Continued)

Note: Bonus is determined by the Salary Review Committee with reference to the performance of the Group.

There was no arrangement under which a director waived or agreed to waive any remuneration during both years.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2010: four) were directors of the Company whose emoluments are included in the disclosure in note 10 above. The emoluments of the remaining one (2010: one) individual were as follows:

	2011	2010
	HK$'000	HK$'000
Salaries and other benefits	**1,391**	906
Retirement benefits schemes contributions	**187**	100
	1,578	1,006

12. DIVIDENDS

During the year ended 31 December 2010, a final dividend of HK5.00 cents per share (total dividend of HK$55,871,000) in respect of the financial year ended 31 December 2009 were paid to the shareholders. In respect of the financial year ended 31 December 2010, a final dividend of HK3.1 cents per share and a special dividend of HK3.9 cents per share (total dividend of HK$77,956,000) were declared on 23 May 2011 and were paid to the shareholders during the year ended 31 December 2011.

In respect of the financial year ended 31 December 2011, the directors of the Company propose a final dividend of HK3.5 cents per share. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2011 HK$'000	2010 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**186,358**	69,010

Number of shares

	2011 '000	2010 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,113,931**	1,116,452
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**578**	2,342
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,114,509**	1,118,794

The computation of diluted earnings per share does not assume the exercise of certain of the Company's share options because the exercise price of those share options was higher than the average market price for shares for both 2011 and 2010.

14. PLANT AND EQUIPMENT

	Office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST				
At 1 January 2010	27,154	6,595	2,835	36,584
Exchange adjustments	1,176	296	131	1,603
Additions	3,268	308	823	4,399
Disposals	(3,591)	–	(1,121)	(4,712)
At 31 December 2010	28,007	7,199	2,668	37,874
Exchange adjustments	1,470	370	142	1,982
Additions	4,052	1,263	1,252	6,567
Disposal of subsidiaries (note 26)	(2,539)	(227)	(138)	(2,904)
Disposals	(1,769)	(553)	(727)	(3,049)
At 31 December 2011	29,221	8,052	3,197	40,470
ACCUMULATED DEPRECIATION				
At 1 January 2010	16,588	4,518	2,102	23,208
Exchange adjustments	792	232	76	1,100
Provided for the year	3,758	782	735	5,275
Eliminated on disposals	(3,213)	–	(1,060)	(4,273)
At 31 December 2010	17,925	5,532	1,853	25,310
Exchange adjustments	976	277	90	1,343
Provided for the year	3,487	658	736	4,881
Disposal of subsidiaries (note 26)	(724)	(94)	(137)	(955)
Eliminated on disposals	(1,407)	(459)	(727)	(2,593)
At 31 December 2011	20,257	5,914	1,815	27,986
CARRYING VALUES				
At 31 December 2011	8,964	2,138	1,382	12,484
At 31 December 2010	10,082	1,667	815	12,564

14. PLANT AND EQUIPMENT (Continued)

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Office equipment	20%
Motor vehicles	20%
Leasehold improvements	Over the shorter of the term of the lease, or 33 1/3% – 50%

15. GOODWILL

	HK$'000
Cost	
At 1 January 2010	9,078
Exchange adjustments	316
At 31 December 2010	9,394
Exchange adjustments	466
At 31 December 2011	9,860
Impairment	
At 1 January 2010	–
Exchange adjustments	64
Impairment loss recognised during the year	2,555
At 31 December 2010	2,619
Exchange adjustments	130
At 31 December 2011	2,749
Carrying values	
At 31 December 2011	7,111
At 31 December 2010	6,775

15. GOODWILL (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that is expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment losses) had been allocated as follows:

	2011	2010
	HK$'000	HK$'000
Outsourcing software service		
SinoCom Shensoft Holdings (BVI) limited ("SinoCom Shensoft")	**7,111**	6,775

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. During the year ended 31 December 2010, the Group recognised a full impairment loss of HK$2,555,000 in relation to goodwill arising on acquisition of SinoCom-ArtM Technology Co., Ltd. ("SinoCom-Artm Technology"). Given its revenue has decreased and it has incurred losses for the past two years and the directors of the Company do not expect its financial performance will improve for the foreseeable future.

The basis of the recoverable amount of the CGU of SinoCom Shensoft and its major underlying assumptions are summarised below:

The recoverable amount of the CGU of SinoCom Shensoft has been determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 17% (2010: 17%). Cash flows beyond one-year period are extrapolated using a growth rate of 12% (2010: 5%) for SinoCom Shensoft, over the projected period of five years for impairment assessment purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

16. OTHER DEPOSITS

Other deposits represent rental deposits paid under operating leases receivable after one year.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2011, the Group had interests in the following jointly controlled entities:

Name of entity	Form of entity	Place of incorporation and operation	Class of capital held	Proportion of nominal value of issued capital indirectly held by the Group		Proportion of voting power held		Principal activity
				2011	2010	2011	2010	
SinoCom DIR Business Innovation Co., Ltd ("SinoCom DIR")	Incorporated	Hong Kong	Ordinary shares JPY100,000,000	**60%**	N/A	**60%**	N/A	Investment holding
SinoCom DIR Business Innovation Technology (Beijing) Co., Ltd ("SinoCom DIR Beijing")	Incorporated	PRC	Registered capital US$600,000	**60%**	N/A	**60%**	N/A	Provision of outsourcing software development services
Jinan SinoCom DIR Business Information Technology Limited ("Jinan SinoCom DIR")	Incorporated	PRC	Registered capital US$300,000	**60%**	N/A	**60%**	N/A	Provision of outsourcing software development services

On 28 February 2011, SinoCom DIR and Daiwa Institute of Research Business Innovation Ltd. ("DIR-BI"), a corporation incorporated under the laws of Japan, entered into a subscription agreement pursuant to which DIR-BI has conditionally agreed to subscribe for, and SinoCom DIR has conditionally agreed to allot and issue to DIR-BI, the subscription shares at a total consideration of JPY1,000,000,000, which was fully paid by DIR-BI in April 2011. SinoCom DIR is a wholly-owned subsidiary established by SinoCom Holdings (BVI) Limited ("SinoCom BVI"), a wholly-owned subsidiary of the Company, in Hong Kong in January 2011. Upon completion of the subscription, SinoCom DIR is owned as to 60% by SinoCom BVI and 40% by DIR-BI, and SinoCom DIR is classified as a jointly controlled entity as DIR-BI is able to exercise veto rights over strategic financial and operating decisions of SinoCom DIR.

On the same day, the Company, SinoCom BVI and DIR-BI entered into a shareholders' agreement in respect of SinoCom DIR to provide for, among other matters, the basis on which the SinoCom DIR should be operated and managed, the reorganisation to be completed by the Company to put in place the corporate structure of SinoCom DIR and its subsidiaries, and grant of the put and call options by the Company and SinoCom BVI to DIR-BI.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

In the event that the put option is exercised, the Company or SinoCom BVI is required to acquire the 40% equity interests in SinoCom DIR at fair value. In the event that the call option is exercised, SinoCom BVI is required to sell its 60% equity interests in SinoCom DIR to DIR-BI at fair value. In the opinion of the Company's directors, the fair value of these options is insignificant.

As part of the reorganisation mentioned above, Jinan SinoCom DIR (formerly known as "SinoCom Information Technology (Shandong) Limited") was required to be transferred to become wholly owned by SinoCom DIR Beijing, a wholly owned subsidiary of SinoCom DIR.

Further details of the above transaction are set out in the Company's circular dated 8 April 2011.

On 27 April 2011, the above transaction was approved by the Company's shareholders at the Extraordinary General Meeting.

On 25 August 2011, the Company completed the legal documents regarding the transfer of all the equity interest of Jinan SinoCom DIR to SinoCom DIR Beijing. As such, SinoCom DIR and its wholly owned subsidiaries, i.e., SinoCom DIR Beijing and Jinan SinoCom DIR, became the Group's jointly controlled entities.

	2011 **HK$'000**
Cost of unlisted investment in jointly controlled entities (note 26)	**152,601**
Share of profit	**2,257**
Exchange adjustment	**2,405**
	157,263

Interests in jointly controlled entities as at 31 December 2011 include customer relationship of HK$37,202,000 (amortised over ten years) and goodwill of HK$46,734,000.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the equity method is set out below:

	2011 HK$'000
Current assets	103,762
Non-current assets	5,659
Current liabilities	(26,793)
Share of net assets by the Group	82,628
Intangible assets recognised	37,202
Goodwill recognised	46,734
Deferred tax liabilities	(9,301)
	157,263

	2011 HK$'000
Income recognised in profit or loss	45,776
Expenses recognised in profit or loss	(42,578)
Amotisation of intangible assets	(1,254)
Deferred tax credited to profit or loss	313

18. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Trade receivables	**92,240**	92,942
Less: allowance for doubtful debts	**(6,571)**	–
	85,669	92,942
Other receivables	**9,108**	7,737
Other deposits	**4,892**	6,054
Prepayments	**3,965**	4,498
Total trade and other receivables	**103,634**	111,231

The Group allows an average credit period of 30 to 45 days, extending up to five months for its trade customers. The following is an aged analysis of trade receivables based on invoice dates at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
0-30 days	**83,641**	82,868
31-60 days	**861**	7,563
61-90 days	**300**	191
91-180 days	**867**	581
181-360 days	**–**	1,739
	85,669	92,942

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimize credit risk. Overdue balances are reviewed regularly by senior management. The management considered the recoverability of trade receivables that are neither past due nor impaired is beyond doubt.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$105,000 (2010: HK$2,511,000) which are past due at the end of the reporting period for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 135 days (2010: 162 days).

18. TRADE AND OTHER RECEIVABLES (Continued)

Ageing of trade receivables which are past due but not impaired:

	2011 HK$'000	2010 HK$'000
61-90 days	–	191
91-180 days	105	581
181-360 days	–	1,739
	105	2,511

Movement in the allowance for doubtful debts:

	2011 HK$'000	2010 HK$'000
At 1 January	–	–
Impairment losses recognised on trade receivables	6,423	–
Exchange adjustment	148	–
At 31 December	6,571	–

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$6,571,000 as of 31 December 2011(2010: nil), which are made based on estimated irrecoverable amounts from the outsourcing software development service provided by reference to past default experience and objective evidences.

The Group's trade and other receivables denominated in foreign currencies at the end of the reporting period are as follows:

	2011 HK$'000	2010 HK$'000
JPY	81,041	74,814

19. HELD FOR TRADING INVESTMENTS

	2011 HK$'000	2010 HK$'000
Equity securities listed in the PRC at fair value	–	100

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits and carry interest at effective interest rates ranging from 0.0001 % to 3.50% (2010: 0.0001% to 2.25 %) per annum.

The Group's bank balances and cash denominated in foreign currencies at the end of the reporting period are as follows:

	2011 HK$'000	2010 HK$'000
United States Dollar ("US$")	13,363	13,859
JPY	110,202	163,244
HK$	19,780	92,899

21. TRADE AND OTHER PAYABLES

	2011 HK$'000	2010 HK$'000
Trade payables	13,173	4,378
Wages and salaries payable	86,308	78,654
Accruals	1,197	1,273
Other tax payables	4,236	14,209
Payable for outstanding consideration for acquisition of additional equity interests in a subsidiary	–	196
Other payables	2,682	3,827
	107,596	102,537

The average credit period of trade payables is 30 to 60 days.

21. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables based on invoice dates at the end of the reporting period:

	2011	2010
	HK$'000	HK$'000
0-30 days	**10,113**	3,015
31-60 days	**3,060**	1,363
	13,173	4,378

The Group's trade and other payables denominated in foreign currency at the end of the reporting period are as follows:

	2011	2010
	HK$'000	HK$'000
JPY	**31,105**	23,585
HK$	**4,332**	3,200

22. SHARE CAPITAL

	Number of shares	
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.025 each, at 1 January 2010, 31 December 2010 and 31 December 2011	4,000,000	100,000
Issued and fully paid:		
At 1 January 2010	1,114,711	27,868
Repurchase and cancellation of shares (Note i)	(3,736)	(93)
Exercise of share options (Note ii)	2,884	72
At 31 December 2010	1,113,859	27,847
Exercise of share options (Note iii)	120	3
At 31 December 2011	1,113,979	27,850

22. SHARE CAPITAL (Continued)

Notes:

(i) During the year ended 31 December 2010, the Company repurchased 3,736,000 ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
	'000	HK$	HK$	HK$'000
November	3,736	0.92	0.90	3,396

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

(ii) During the year ended 31 December 2010, share options to subscribe for 2,884,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share (see note 24). These shares rank pari passu with other shares in issue in all respect.

(iii) During the year ended 31 December 2011, share options to subscribe for 120,000 ordinary shares of HK$0.025 each were exercised at HK$0.625 per share (see note 24). These shares rank pari passu with other shares in issue in all respect.

23. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Deferred tax liabilities				Deferred tax assets		
	Prepaid expenses	Distributable profit of the PRC subsidiaries	Gain on deemed disposal of subsidiaries	Total	Accrued expenses	Allowance for doubtful debts	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	1,088	12,599	–	13,687	(2,921)	–	(2,921)
Charge (credit) to profit and loss for the year	39	3,632	–	3,671	(405)	–	(405)
Exchange differences	41	–	–	41	(112)	–	(112)
At 31 December 2010	1,168	16,231	–	17,399	(3,438)	–	(3,438)
Reversal upon payment of withholding tax	–	(11,432)	–	(11,432)	–	–	–
Charge (credit) to profit and loss for the year	135	3,157	12,519	15,811	67	(1,606)	(1,539)
Effect of changes in tax rate charged to profit and loss	–	–	–	–	(3,748)	–	(3,748)
Exchange differences	62	–	–	62	(256)	(36)	(292)
At 31 December 2011	1,365	7,956	12,519	21,840	(7,375)	(1,642)	(9,017)

At the end of the reporting period, the Group had unused tax losses of HK$1,029,000 (2010: HK$5,068,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of HK$1,029,000 (2010: HK$5,068,000) due to the unpredictability of future profit streams. Tax losses of HK$1,029,000 (2010: HK$5,068,000) will expire in 2018.

Under the tax law of Japan, expenses are deductible for tax purposes when the amount is paid. Deferred tax liabilities have accordingly been recognised in respect of the prepaid expenses at the end of the reporting period.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries.

23. DEFERRED TAXATION (Continued)

Withholding tax is also imposed on dividends declared by the subsidiaries in Japan. At the end of the reporting period, the aggregate amount of temporary differences with undistributed earnings of the subsidiaries in Japan for which deferred tax liabilities have not been recognised was HK$5,684,000 (2010: HK$1,064,000). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Under the EIT Law of the PRC, a 10% income tax is imposed on the gain on disposal of subsidiaries when the gain is realised from the tax perspective. Deferred taxation of approximately HK$12,519,000 has been provided for in the consolidated financial statements in respect of such temporary differences.

Under the EIT Law of PRC, accrued expenses are not deductible for tax purposes until the amount is paid. Allowance for doubtful debts is not deductible for tax purposes until the amount is written off as uncollectible. Deferred tax assets have accordingly been recognized in respect of the accrued expenses and allowance for doubtful debts at the end of the reporting period.

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 2 April 2004 for the primary purpose of providing incentives to eligible employees, and will expire on 1 April 2014. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees to subscribe for shares in the Company.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 31,526,000 (2010: 35,606,000), representing 2.83% (2010: 3.20%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised on the date of grant of the share option or after the date on which the share option is granted over a period as the board of directors of the Company may determine up to the tenth anniversary of the date of grant. No consideration is payable on the grant of an option. Options are exercisable at a price that is determinable by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

24. SHARE OPTION SCHEME (Continued)

Details of specific category of options are as follows:

Date of grant	Vesting period	Exercise price
10/11/2004	10/11/2004-09/05/2008	HK$0.625
24/01/2006	24/01/2006-23/01/2010	HK$1.3875
15/01/2007 (Note)	15/01/2007-14/01/2011	HK$1.73
28/01/2008 (Note)	28/01/2008-27/01/2011	HK$1.36
28/01/2008	28/01/2008-27/01/2013	HK$1.36

Note: On 28 January 2008, 15,750,000 share options, which represent the then outstanding options previously granted on 15 January 2007 with an exercise price of HK$1.73 per share, were cancelled and the same number of share options ("new options") were granted to the option holders with an exercise price of HK$1.36 per share and other terms remained the same as those of the old options.

The following table discloses movements of the number of the Company's shares under options held by employees during the year:

Date of grant	Outstanding at 1/1/2011	Exercised during year	Forfeited during year	Outstanding at 31/12/2011
10/11/2004	**4,876,000**	**(120,000)**	**–**	**4,756,000**
24/01/2006	**15,800,000**	**–**	**(1,440,000)**	**14,360,000**
28/01/2008	**13,730,000**	**–**	**(1,320,000)**	**12,410,000**
28/01/2008	**1,200,000**	**–**	**(1,200,000)**	**–**
	35,606,000	**(120,000)**	**(3,960,000)**	**31,526,000**

24. SHARE OPTION SCHEME (Continued)

The following table discloses movements of the number of the Company's shares under options held by employees during prior year:

Date of grant	Outstanding at 1/1/2010	Exercised during year	Forfeited during year	Outstanding at 31/12/2010
10/11/2004	7,760,000	(2,884,000)	–	4,876,000
24/01/2006	17,080,000	–	(1,280,000)	15,800,000
28/01/2008	15,030,000	–	(1,300,000)	13,730,000
28/01/2008	1,200,000	–	–	1,200,000
	41,070,000	(2,884,000)	(2,580,000)	35,606,000

The options granted on 10 November 2004 may be exercisable after the vesting period, during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary"), being 10 May 2005 to 9 November 2014 (both days inclusive), in the following manner:

(a) no part of the option may be exercisable prior to and including 10 May 2005, the first semi-anniversary;

(b) 25% of the option will be exercisable at any time after the first semi-anniversary up to and including 9 November 2014;

(c) a further 25% of the option will be exercisable at any time on or after the first anniversary of the first semi-anniversary up to and including 9 November 2014;

(d) another 25% of the option will be exercisable at any time on or after the second anniversary of the first semi-anniversary up to and including 9 November 2014; and

(e) the remaining 25% of the opinion will be exercisable at any time on or after the third anniversary of the first semi-anniversary up to and including 9 November 2014.

24. SHARE OPTION SCHEME (Continued)

The options granted on 24 January 2006 may be exercisable after the vesting period, during the period from the first anniversary of the date of grant, being 24 January 2007 to 23 January 2016 (both days inclusive), in the following manner:

(a) no part of the options may be exercisable prior to the first anniversary of the date of grant;

(b) 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 23 January 2016;

(c) a further 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 23 January 2016;

(d) another 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 23 January 2016; and

(e) the remaining 25% of the options will be exercisable at any time on or after the fourth anniversary of the date of grant up to and including 23 January 2016.

The new options granted on 28 January 2008 may be exercisable after the vesting period, during the period from the date of grant, being 28 January 2008 to 27 January 2018 (both days inclusive), in the following manner:

(a) 25% of the options will be exercisable at any time on or after the date of grant up to and including 27 January 2018;

(b) a further 25% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 28 January 2018;

(c) another 25% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 28 January 2018; and

(d) the remaining 25% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 28 January 2018.

24. SHARE OPTION SCHEME (Continued)

The options granted on 28 January 2008 may be exercisable after the vesting period, during the period from the first anniversary of the date of grant, being 28 January 2008 to 27 January 2018 (both days inclusive), in the following manner:

(a) no part of the options may be exercisable prior to the first anniversary of the date of grant;

(b) 20% of the options will be exercisable at any time on or after the first anniversary of the date of grant up to and including 27 January 2018;

(c) a further 20% of the options will be exercisable at any time on or after the second anniversary of the date of grant up to and including 27 January 2018;

(d) a further 20% of the options will be exercisable at any time on or after the third anniversary of the date of grant up to and including 27 January 2018;

(e) another 20% of the options will be exercisable at any time on or after the forth anniversary of the date of grant up to and including 27 January 2018; and

(f) the remaining 20% of the options will be exercisable at any time on or after the fifth anniversary of the date of grant up to and including 17 January 2018.

At 31 December 2011, 31,526,000 (2010: 31,453,500) share options are exercisable. The closing price of the Company's shares immediately before 10 November 2004, 24 January 2006, 28 January 2008 and 28 January 2008, the date of grant of options, was HK$2.50, HK$5.55, HK$1.34 and HK$1.34, respectively.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised in the year ended 31 December 2011 was HK$0.76 (2010: HK$1.24).

The options granted on 10 November 2004 have a fair value of HK$0.689 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 24 January 2006 have a fair value of HK$2.13 per option which was determined at the date of grant using the Black-Scholes pricing model.

24. SHARE OPTION SCHEME (Continued)

The new options granted on 28 January 2008 have a fair value of HK$0.70 per option which was determined at the date of grant using the Black-Scholes pricing model.

The options granted on 28 January 2008 have a fair value of HK$0.43 per option which was determined at the date of grant using the Black-Scholes pricing model.

The following assumptions were used to calculate the fair value of share options:

Grant date	**28 January 2008**	**28 January 2008**	**24 January 2006**	**10 November 2004**
Exercise price	HK$1.36	HK$1.36	HK$1.3875	HK$0.625
Expected life	6.50 years	6.50 years	6.25 years	4 years
Expected volatility	43%	43%	44%	39%
Expected dividend yield	2.5%	2.5%	2.5%	2.5%
Risk free rate	2.11%	2.11%	4.07%	2.48%

Expected volatility was determined by using the historical volatility of the Company's share price since the listing date to the grant dates of share options. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit and loss, with a corresponding adjustment to the share options reserve.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised the total expense of HK$27,000 for the year ended 31 December 2011 (2010: HK$1,122,000) in relation to share options granted by the Company.

25. ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN A SUBSIDIARY

In April 2011, the Group acquired a further 6.32% equity interests in an existing non-wholly owned subsidiary, SinoCom Ideas Holdings Limited ("SinoCom Ideas") from two non-controlling shareholders of the subsidiary for a cash consideration of HK$1,050,000 which was paid in April 2011. SinoCom Ideas is incorporated in the British Virgin Islands and is the holding company of Dalian SinoCom Holdings Technology Software Co., Ltd ("Dalian SinoCom"), which is principally engaged in the provision of outsourcing software development services to customers in China. The difference of HK$85,000 between the amount by which the non-controlling interests are adjusted of HK$1,135,000 and the fair value of the consideration paid HK$1,050,000 was recognised directly in equity and attributed to the owners of the Company.

In July 2010, the Group acquired a further 2.64% equity interests in SinoCom Ideas from a non-controlling shareholder of the subsidiary for a cash consideration of HK$381,000 which was paid in July 2010. The difference of HK$28,000 between the amount by which the non-controlling interests are adjusted of HK$409,000 and the fair value of the consideration paid HK$381,000 was recognised directly in equity and attributed to the owners of the Company.

26. DISPOSAL OF SUBSIDIARIES

As a result of the transaction with DIR-BI as disclosed in note 17, the Group lost control over SinoCom DIR, SinoCom DIR Beijing and Jinan SinoCom DIR as the 40% non-controlling equity holder is able to exercise veto rights over strategic financial and operating decisions. The consolidated net assets of these entities at the date of disposal were as follows:

	25/08/2011 HK$'000
Analysis of assets and liabilities over which control was lost:	
Plant and equipment	1,949
Trade and other receivables	26,077
Amount due from the Group	62
Trade and other liabilities	(114,720)
Amount due to the Group	(48,432)
Tax liabilities	(5,307)
Bank balance and cash	168,338
Net assets disposed of	27,967
Gain on disposal of subsidiaries:	
Fair value of retained interests in SinoCom DIR	152,601
Net assets disposed of	(27,967)
Cumulative exchange difference in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	558
Gain on disposal	125,192
Net cash outflow arising on disposal:	
Bank balance and cash disposed of	168,338

26. DISPOSAL OF SUBSIDIARIES (Continued)

The fair value of retained interests in SinoCom DIR was determined by the directors of the Company with assistance of an independent valuer based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 17%. Cash flows beyond one-year period are extrapolated using a growth rate of 8.6%, over the projected period of five years for valuation purpose. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rates for the relevant industries. Other key assumptions for the value in use calculation and the budgeted gross margins are determined based on the past performance of SinoCom DIR and management's expectations for the market development.

27. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2011 **HK$'000**	2010 HK$'000
Unlisted-equity securities	**–**	7,756
Provision for impairment	**–**	(7,756)
	–	–

The above unlisted investment represented an investment in 22% equity interests in Beijing Jbridge Information Technology Co., Ltd ("Beijing Jbridge") which is established in the PRC. Beijing Jbridge is principally engaged in the provision of outsourcing software development services in Japan.

Beijing Jbridge was not regarded as an associate of the Group because the directors of the Company determined that the Group cannot exercise significant influence over Beijing Jbridge in view of the condition that the remaining equity interests of Beijing Jbridge was concentrated among a small group of shareholders who operate Beijing Jbridge without regard to the views of the Company.

The investment in Beijing Jbridge was fully impaired in prior years as the directors of the Company expected no future cash inflows of the investment.

In the current year, the Group disposed of this investment at a cash consideration of RMB5,089,000 (approximated to HK$6,278,000). A gain on disposal of HK$6,278,000 has been recognised in profit or loss for the current year.

28. OPERATING LEASE COMMITMENTS

The Group as lessee

	2011 HK$'000	2010 HK$'000
Minimum lease payments paid under operating leases during the year in respect of office premises	**26,627**	34,123

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**32,718**	26,718
In the second to fifth year inclusive	**10,986**	22,350
	43,704	49,068

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated and rentals are fixed for lease terms from one to three years.

29. RETIREMENT BENEFITS SCHEMES

The employees of subsidiaries registered in the PRC are members of the pension scheme operated by the PRC local government. Those PRC subsidiaries are required to contribute a certain percentage of the relevant portion of the payroll of these employees to the pension scheme to fund the benefits. The only obligation of the Group in respect of the pension scheme is the required contributions under the pension scheme.

The employees of subsidiaries registered in Japan are members of the pension scheme operated by the Japan local government. Those subsidiaries in Japan are required to contribute certain pre-fixed amounts of contribution, according to the level of income for each employee to the pension scheme to fund the benefits. The only obligation of the Group in respect of the pension scheme is the required contributions under the pension scheme.

The Group's contributions to the retirement benefits schemes, which are charged to the consolidated statement of comprehensive income, during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Retirement benefits contributions made during the year	**40,845**	35,726

As at 31 December 2011, contributions of HK$19,326,000 (2010: HK$13,349,000) due in respect of the year ended 31 December 2011 had not been paid over the schemes.

30. EVENT AFTER THE REPORTING PERIOD

On 6 March 2012, Gotoura Limited ("Gotoura"), a corporation incorporated in British Virgin Islands and principally engaged in providing information services for Chinese citizens travelling abroad, SinoCom BVI, Tian Long Investment Holding Limited ("Tian Long"), a corporation incorporated in Hong Kong, Good Dragon Investment Limited ("Good Dragon"), a corporation incorporated in Hong Kong, Mr. Wang Xubing, Mr. Pang Chor Fu and Mr. Stephen Pang entered into a subscription agreement pursuant to which SinoCom BVI agreed to subscribe for, and Gotoura agreed to allot and issue to SinoCom BVI, the subscription shares, representing approximately 33.50% of the issued share capital of Gotoura as enlarged by the issue of the subscription shares, at a total consideration of RMB20,000,000 (equivalent to approximately HK$24,600,000). Completion of the subscription took place immediately following signing of the subscription agreement.

Immediately prior to completion of the subscription agreement, Gotoura was owned as to 50% by Tian Long, 34% by Good Dragon and 16% among the individual shareholders. Tian Long was owned as to 45% by Mr. Wang Xubing, a director of the Group, and 55% by Mr. Pang Chor Fu, an independent non-executive director of the Group.

Following completion of the subscription, Gotoura became owned as to 33.50% by SinoCom BVI and became an associate of the Group.

Further details of the above transaction are set out in the Company's announcement dated 6 March 2012.

31. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2011, the Group recognised revenues of HK$4,411,000 from providing certain administrative services to a jointly controlled entity and received software outsourcing services of HK$3,128,000 from a jointly controlled entity.

No related party transaction occurred during the year ended 31 December 2010.

The following balances were outstanding at the end of the reporting period:

	2011 HK$'000	2010 HK$'000
Amount due from a jointly controlled entity	4,072	–
Amount due to a jointly controlled entity	5,261	–

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2011 HK$'000	2010 HK$'000
Short-term benefits	26,581	20,789
Share-based payment expenses	–	2
Retirement benefits scheme contributions	1,341	984
	27,922	21,775

The remuneration of directors is determined by the salary review committee. The remuneration of the key executives is determined by the internal salary review committee of five members comprising the chairman, president, and three vice presidents of the Company having regard to the performance of individuals and market trends.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
Held for trading investments	–	100
Loans and receivables (including cash and cash equivalents)	704,916	714,657
	704,916	714,757
Financial liabilities		
Liabilities measured at amortised cost	107,424	87,055

The Group's major financial instruments include held for trading investments, trade receivables, other receivables, amount due from a related party, bank balances and cash, trade payables, other payables and wages and salaries payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(b) Financial risk management objectives and policies

Management monitors and manages the financial risks relating to the operations of the Group through their degree of magnitude of risks. These risks include market risk (including foreign currency risk), credit risk and liquidity risk.

(i) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. There has been no change to the Group's manner in which it manages and measures the risk.

Foreign currency risk

The foreign currency risk of the Group includes the foreign exchange loss arising on the translation of monetary assets and liabilities denominated in foreign currencies against the functional currencies of the relevant subsidiaries.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Foreign currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including inter-group balances) at the end of the reporting period are as follows:

	Liabilities		Assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**–**	–	**13,363**	13,859
JPY	**31,105**	23,585	**191,243**	238,058
HK$	**4,332**	3,200	**117,052**	159,957

The sensitivity analysis below has been determined based on the exposure to a 5% (2010: 5%) increase and decrease in the functional currencies of respective subsidiaries against the relevant foreign currencies. 5% (2010: 5%) is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding amounts of relevant subsidiaries' foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2010: 5%) change in foreign currency rates. For a 5% (2010: 5%) strengthening of functional currencies of respective subsidiaries against the relevant foreign currencies, the profit for the year will be decreased. For a 5% (2010: 5%) weakening of functional currencies of respective subsidiaries against relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

Foreign currency risk (Continued)

	Impact of US$		Impact of JPY		Impact of HK$	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit for the year	**(664)**	(690)	**(3,252)**	(7,240)	**(5,636)**	(7,838)

Interest rate risk

Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant. Hence, no sensitivity analysis is presented. Interest rate risk is managed by the management of the Company on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China.

(ii) Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk on trade and other receivables by geographical locations is mainly in the PRC and Japan.

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk (Continued)

The Group has concentration of credit risk as 55.9% (2010: 13.9%) and 64.6% (2010: 43.1%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively.

Other than concentration of credit risk described above, the Group does not have any other significant concentration of credit risk.

(iii) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate bank balances and cash and continuously monitoring forecast and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis for the purpose of managing liquidity risk. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay in accordance with agreed repayment terms. The tables include principal cash flows.

	Within 90 days HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
2011			
Trade payables	13,173	13,173	13,173
Other payables	94,251	94,251	94,251
	107,424	107,424	107,424
2010			
Trade payables	4,378	4,378	4,378
Other payables	82,677	82,677	82,677
	87,055	87,055	87,055

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded in active liquid market are determined with reference to quoted market bid prices, and

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	2010			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Held for trading investments	100	–	–	100

32. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT (Continued)

(d) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure of the Group on a timely basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. As at 31 December 2011, the Group has no borrowings. The Group expects to maintain low gearing because of its cash-rich position.

33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activities
			2011	2010	
SinoCom BVI	British Virgin Islands	Ordinary shares US$3,624,502	**100%**	100%	Investment holding
SinoCom Japan Corporation	Japan	Ordinary shares JPY40,000,000	**92%**	92%	Provision of outsourcing software development services
SinoCom Beijing	PRC	Registered capital US$6,040,800	**100%**	100%	Provision of outsourcing software development and technical support services
SinoCom Development Holdings Limited	British Virgin Islands	Ordinary shares US$474,671	**100%**	100%	Investment holding
SinoCom Innovative Technology Software Beijing Co., Ltd.	PRC	Registered capital US$370,000	**100%**	100%	Provision of outsourcing software development and technical support services

33. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operation	Class of capital held	Proportion ownership interest held by the Company		Principal activities
			2011	2010	
SinoCom-Artm Technology	PRC	Registered capital RMB2,500,000	80%	80%	Provision of outsourcing software development and technical support services
SinoCom Ideas (Note a)	British Virgin Islands	Ordinary shares HK$3,800,000	94.48%	88.16%	Investment holding
Dalian SinoCom (Note a)	PRC	Registered capital HK$3,200,000	94.48%	88.16%	Provision of outsourcing software development and technical support services
Shensoft Shanghai	PRC	Registered capital US$232,000	100%	100%	Provision of outsourcing software development and technical support services
Jinan SinoCom DIR (Note b)	PRC	Registered capital US$300,000	N/A	100%	Provision of outsourcing software development services
SinoCom Shensoft	British Virgin Islands	Ordinary shares US$500,000	100%	100%	Investment holding

The form of business structure of all above subsidiaries is limited company and the Company indirectly owns the equity interests of all of the above subsidiaries except SinoCom BVI.

Note a: In April 2011, the Group acquired a 6.32% equity interests of SinoCom Ideas as detailed in note 25.

Note b: The Company disposed 40% equity interests of Jinan SinoCom DIR during the year ended 31 December 2011 and Jinan SinoCom DIR became a jointly controlled entity of the Group as detailed in note 17.

Note c: None of the subsidiaries had issued any debt securities at 31 December 2011 and 2010.

Note d: The above table lists the subsidiaries of the Group which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.